# MKTG 4825 Pricing Strategies and Channel Management

Yacheng Sun

Leeds School of Business

University of Colorado at Boulder

# Prerequisites

- BCOR 2400

- MKTG 3250: *Buyer Behavior*

- MKTG3350: *Marketing Research*

# About me

- **Research experiences**

  - Online Movie/Game/Book rental services

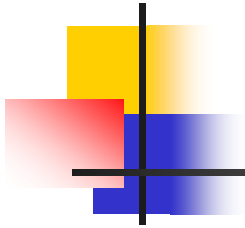  - Loyalty programs of major hotel chains/airlines

  - Online matching services

# Today's agenda

- Course overview and objectives
    - Importance of pricing and channel decisions
    - How to find the right price format/level?
    - How to identify the right channel choice?
- Logistic Issues

# So, let's start...

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# The strategic pricing pyramid

**The Iceberg Principle**
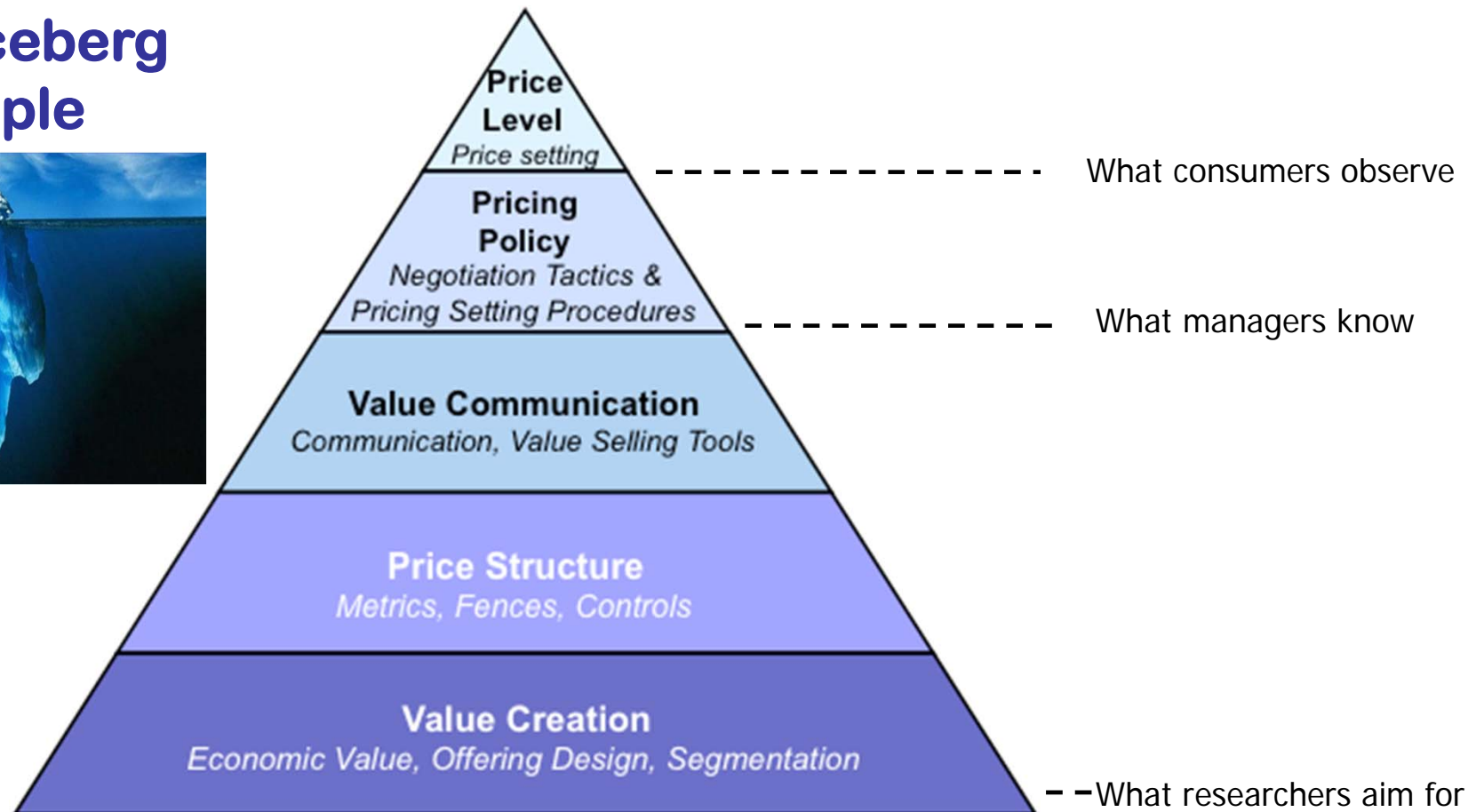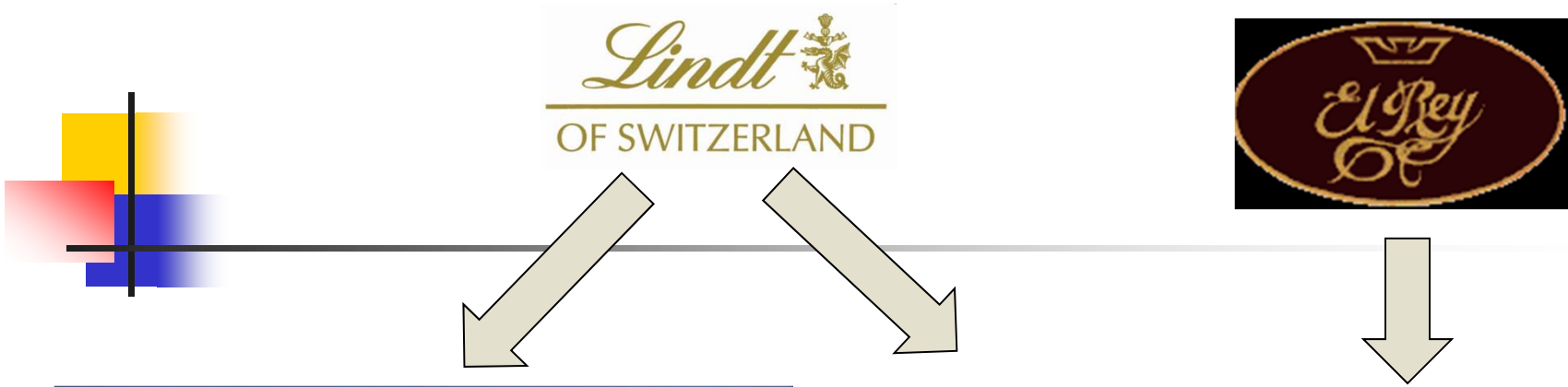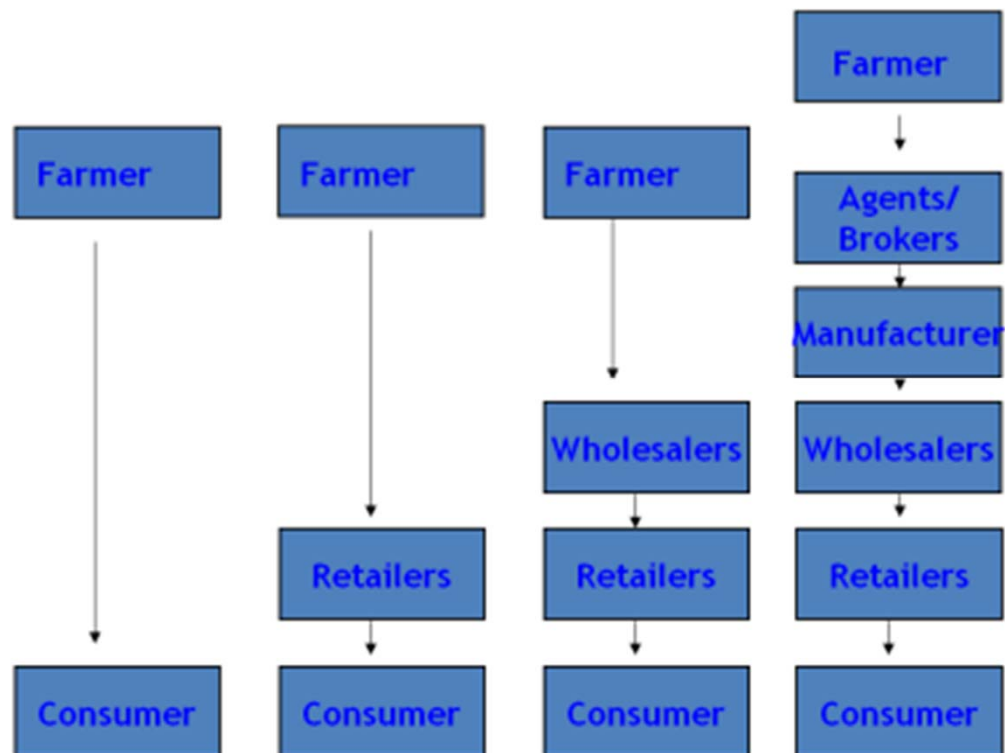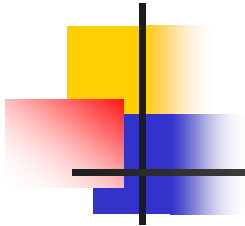




Pyramid levels (top to bottom):

- **Price Level** — *Price setting* — - - - - - - - - - - What consumers observe
- **Pricing Policy** — Negotiation Tactics & Pricing Setting Procedures — - - - - - - - - - - What managers know
- **Value Communication** — Communication, Value Selling Tools
- **Price Structure** — Metrics, Fences, Controls
- **Value Creation** — Economic Value, Offering Design, Segmentation — - - What researchers aim for

# Course objectives

- Knowledge of
    - rationales behind various price formats
    - Factors that influence the design and execution of pricing strategy.
    - Importance of value-based pricing strategy

- Ability to
    - develop simple and demand-based models and solve analytically for optimal prices
    - solve numerically for optimal prices based on model of sales

- Knowledge of
    - types of channels and the choice of channels
    - channel conflicts and channel coordination

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# Examples

# Examples

- Fast-food restaurants (KFC, Burger King, McDonald's) offer both a la carte items and value meals.

# Examples

- Passengers who book airline tickets earlier are most likely to get bumped due to the common over-booking practices by airlines.

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# An example - 1GB CU Logo Kingston Flash Drive

| Observation | Date | Retail Price | Quantity Sold | Begin_Class? |
|---|---|---|---|---|
| 1 | 4/6/2009 | 9 | 2 | 0 |
| 2 | 4/13/2009 | 9 | 6 | 0 |
| 3 | 4/20/2009 | 9 | 5 | 0 |
| 4 | 4/27/2009 | 9 | 2 | 0 |
| 5 | 5/4/2009 | 9 | 8 | 0 |
| 6 | 5/11/2009 | 9 | 1 | 0 |
| 7 | 5/18/2009 | 9 | 29 | 0 |
| 8 | 5/26/2009 | 9 | 2 | 0 |
| 9 | 6/1/2009 | 9 | 4 | 0 |
| 10 | 6/8/2009 | 9 | 16 | 0 |
| 11 | 6/15/2009 | 9 | 1 | 0 |
| 12 | 6/22/2009 | 9 | 1 | 0 |
| 13 | 7/6/2009 | 9 | 2 | 0 |
| 14 | 7/13/2009 | 9 | 2 | 0 |
| 15 | 7/20/2009 | 9 | 2 | 0 |
| 16 | 7/27/2009 | 8 | 17 | 0 |
| 17 | 8/3/2009 | 8 | 11 | 0 |
| 18 | 8/10/2009 | 8 | 16 | 0 |
| 19 | 8/17/2009 | 8 | 12 | 1 |
| 20 | 8/24/2009 | 8 | 9 | 1 |

# Research objectives

- **Identify the optimal prices**

- **Identify the customer segmentation strategies that supplements these prices**

# Complications

- ## Know customers' willingness-to-pay

  - Quantify the relationship between price and demand
  - Control for other factors that potentially affects demand

- ## Utilizing such knowledge to find the optimal prices

  - Use multiple prices to segment customers
  - Needs to allow for "leaked" customers.

# Research methods

- Basic data manipulation and visualization using *Excel*

- Empirical estimation of demand curve using *Excel*

- Formulate and solve optimal pricing strategies using *Excel Solver*

Linear Line Fit Plot w/out Outlier



Quadratic Line Fit Plot w/out Outlier

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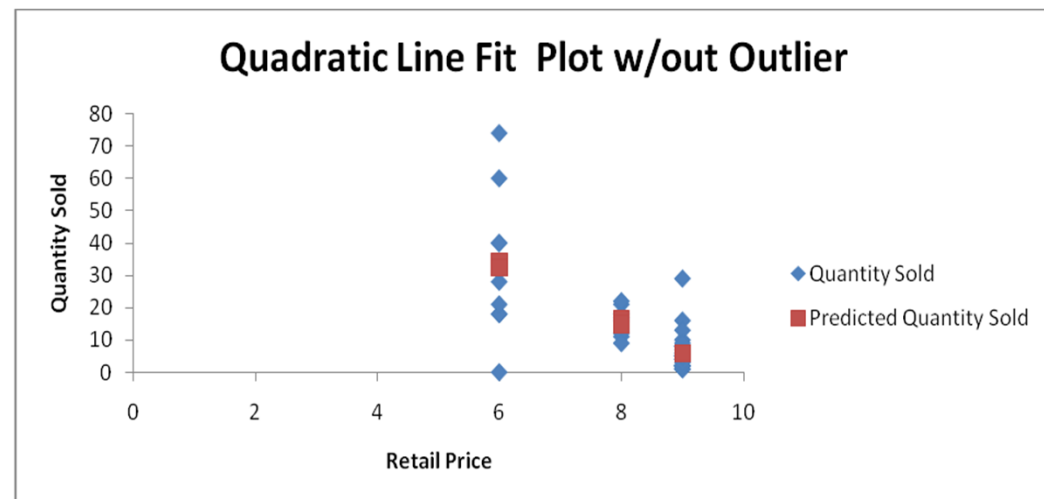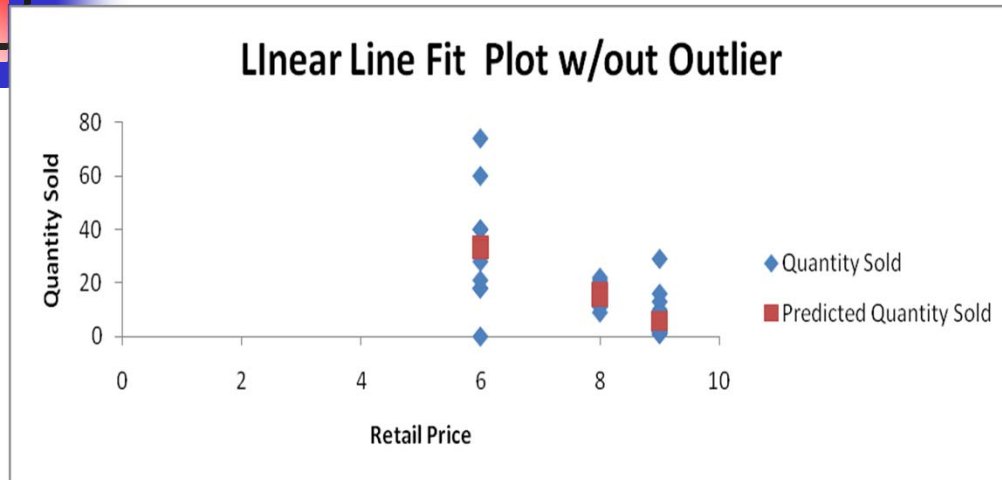
## *Two Optimal Prices- Linear Function with Leakage*

Marginal Cost: $1

Demand at p1(high price):          D(p)=(1-t)*(138.22-15.5*p1)
         51.89
Demand at p2(low price):          2(p1-p2)+t*(100-2*p1)
         10.219


P1(high): $**6.12**
p2 (low): $**4.734**


| | | | |
|---|---|---|---|
| Revenue1(high) | $245.58 | Cost1(high) | $51.89 |
| Revenue2(low) | $62.43 | Cost2(low | $10.21 |
| Total Revenue | $308.02 | Total Costs | $62.11 |

**Profit $245.90**

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# Is there a career in pricing?

- An insider's view of the pricing profession (Deloitte)



Figure 1. Base salary ranges by role
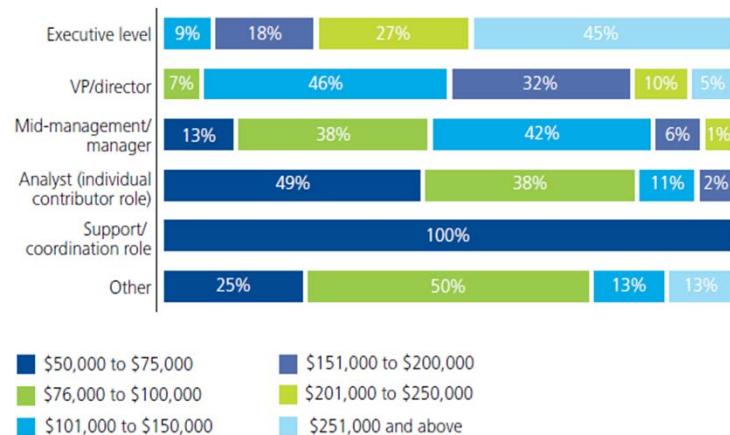
Figure 4. To what extent are you satisfied with your current job?
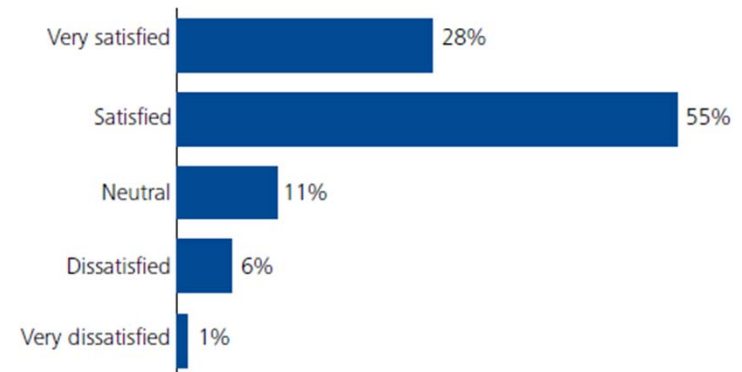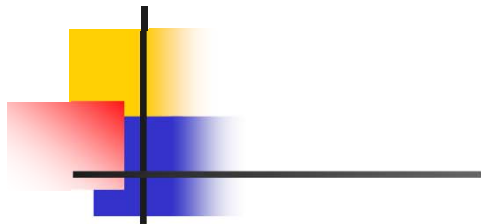
**Figure 9. Indicate your level of agreement with the statement: "I consider my pricing role to be a very strong career enhancer."**

| Response | Percentage |
|---|---|
| Strongly agree | 39% |
| Agree | 46% |
| Neutral | 11% |
| Disagree | 3% |
| Strongly disagree | 1% |
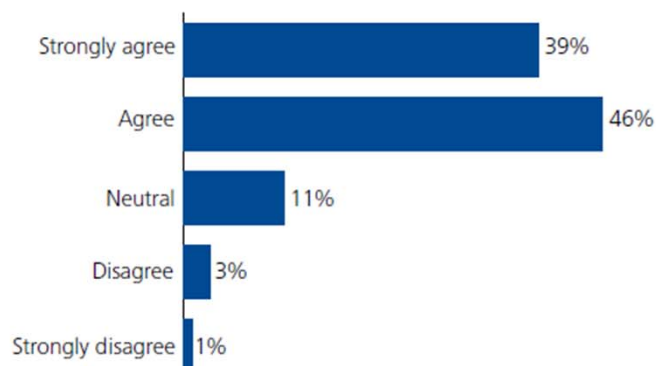
**Figure 3. Distribution of pricing roles**

| Role | Percentage |
|---|---|
| Executive level | 3% |
| VP/director | 39% |
| Mid-management/manager | 39% |
| Analyst (individual contributor role) | 15% |
| Support/coordination role | 0.3% |
| Other | 3% |
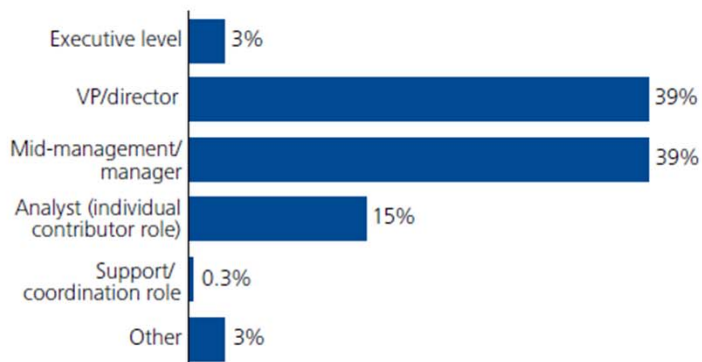
**Figure 6. Respondent educational background**

| Background | Percentage |
|---|---|
| BA/BS - Business | 26% |
| BA/BS - Liberal Arts | 4% |
| BA/BS - Science | 4% |
| BA/BS - Engineering | 3% |
| BA/BS - Computer Science | 0.3% |
| Other BA/BS | 2% |
| MA/MS | 6% |
| MBA | 43% |
| Ph.D./DBA | 3% |
| Other | 9% |
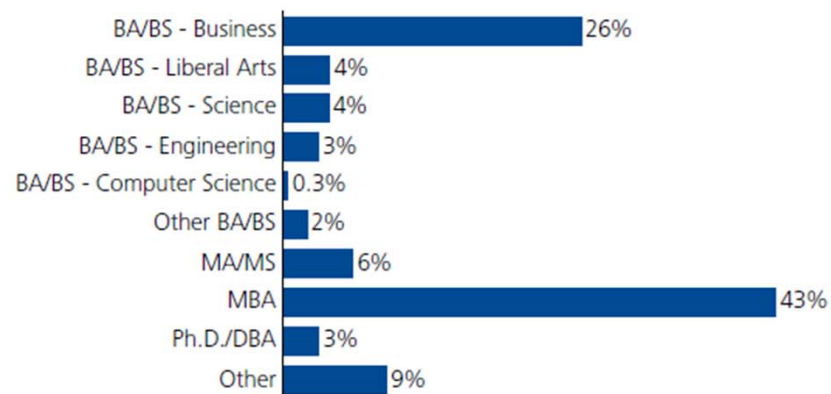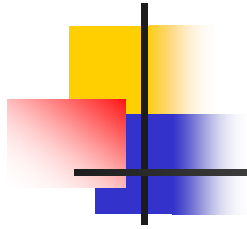
# Materials

- <u>Course reader</u> available @ CU Bookstore
- Lecture slides
- Excel worksheets

# Logistics

- Email: Yacheng.Sun@Colorado.edu
- Office Phone: 303-492-6211
- Office: KOBL 461
- Office hours:
  - 2 – 3:30pm Wednesday & Friday and by appointment
- Teaching Assistant: Ji Hoon Jhang Ji.Jhang@Colorado.edu

# Grading

- Exams:  600 pts (200 pts X 3)
- Team project: 300 pts
- Attendance scores: 100 pts
- Participation scores: 50 pts
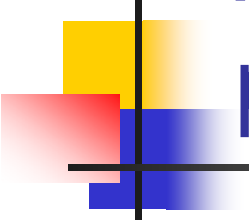
# Exams(600 pts)

- All exams are <u>close book</u>

- Exam dates
    - Exam 1  February 15$^{th}$ (Tuesday)
    - Exam 2  March 17$^{th}$ (Thursday)
    - Exam 3  May 3$^{rd}$ (Tuesday)

# Team project (300 pts)

- Team formation: 4-5 persons formed by self-selection

- Evaluation: Two-part grading
  - Fixed part: 50%
  - Variable part 0-50%: Peer evaluation

- Team work norm should be fair and flexible.

- Report to me early if there is any coordination issue.

# Attendance (100 pts) and participation (50 pts)

- ***Attendance***
- Six to eight "random" quizzes used for keeping attendance
- ***Participation***
- I may cold-call
- There is usually no "correct answer" for a question
- Your input will be evaluated based on
  - Deliberation and quality of comments
  - Contribution to the learning atmosphere

# This course values rigor

- Some people are born great
- Some achieved greatness
- Some have greatness thrust upon them...

  - Shakespeare, *Twelfth Night*

# Disability and religion observances

- Will do my best to accommodate.
- Let me know early - no last-minute surprises please.
- Supporting documents needed.
  - e.g., a letter from Disability Services (303) 492-8671, Willard 322

www.Colorado.EDU/disabilityservices

# Classroom norms

- Be on time and prepared for class!

- Cell phones and pagers need to be turned off during class time.

- <u>No</u> use of laptop in the classroom unless instructed.

- No other non-academic activities in the classroom.

# Deliverable for this session

- A one-minute paper for my better understanding of your

    - academic standing
    - career interests
    - expectations for the class

# Remember: pricing and channel management take <u>much more</u> than pure luck

- <span style="color:red"><u>Don't expect to be as lucky!</u></span>